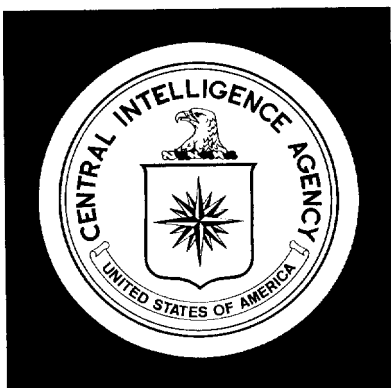


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

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The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents pages.

WARNING

The WEEKLY SUMMARY contains classified information affecting the national security of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.



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SOUTH ASIA: ADVANCING FROM SIMLA

Pakistan apparently is planning to recognize Bangladesh within the next few weeks. On 27 July, a Pakistani spokesman announced that recognition will be on the agenda of the National Assembly when it meets in mid-August and indicated that the government expected a favorable vote. The Pakistani press has been speculating that President Bhutto may then fly to London to meet with Prime Minister Mujib, although Bhutto has publicly denied any plans to leave the country. Mujib, who is recuperating in London from a gallstone operation, has long held that talks between the two countries on unsettled bilateral issues cannot begin until the Bhutto government recognizes Dacca.

Meanwhile, Bangladesh authorities are being somewhat restrained on the sensitive issue of Bengali determination to try Pakistani prisoners accused of war crimes. According to the Bangladesh ambassador in New Delhi, his government will not attempt to get such trials under way for at least a few more weeks and in any event does not intend to try more than a small number. The Bengalis have no real alternative; India, which is holding the prisoners, does not want to jeopardize recent improvements in its relations with Pakistan by a precipitate or excessive transfer of Pakistani prisoners to Bangladesh.

The ambassador asserted that Bangladesh is interested in having better relations with Pakistan. He believed recognition would be followed promptly by negotiations on bilateral issues such as the exchange of minority groups and the division of the assets and liabilities of the formerly united Pakistan. He expected that trilateral discussions with New Delhi on repatriation of the bulk of the prisoners to Pakistan would also begin soon after recognition.

The Bhutto government might be willing to acquiesce in some trials as long as they involved only a small number of prisoners, were accompanied by a clear-cut commitment to return the rest to Pakistan, and appeared to be directed at individual soldiers rather than at Pakistan as a nation. There are other stumbling blocks to a

normalization of relations. The apportioning of assets and liabilities could prove complicated and difficult. Bangladesh, moreover, might demand war reparations, and Islamabad conceivably could insist on compensation for private properties in Bengal owned by West Pakistanis and confiscated by Dacca. Bangladesh has indicated a willingness to exchange members of its unpopular Bihari minority for Bengalis now detained in Pakistan, but the Pakistanis are not eager to receive large numbers of impoverished Biharis.

Indo-Pakistani relations, meanwhile, are continuing gradually to improve. Hostile propaganda has been greatly reduced, and both governments have ratified the agreement reached at Simla in July between Prime Minister Gandhi and President Bhutto. The Simla accord provided that withdrawal of troops from all occupied territory—except in Kashmir—would take place within 30 days after the two sides had exchanged ratification documents. The pullbacks are expected to be carried out this month.

The Simla agreement also provided for another summit meeting—probably during September or October in Pakistan—to take up the problems bypassed at Simla; the most intractable is Kashmir. India wants Pakistan to give up its claim to that part of Kashmir the Indians have held since 1949. At Simla, the two sides temporarily froze the issue by agreeing not to use force to alter the status quo.

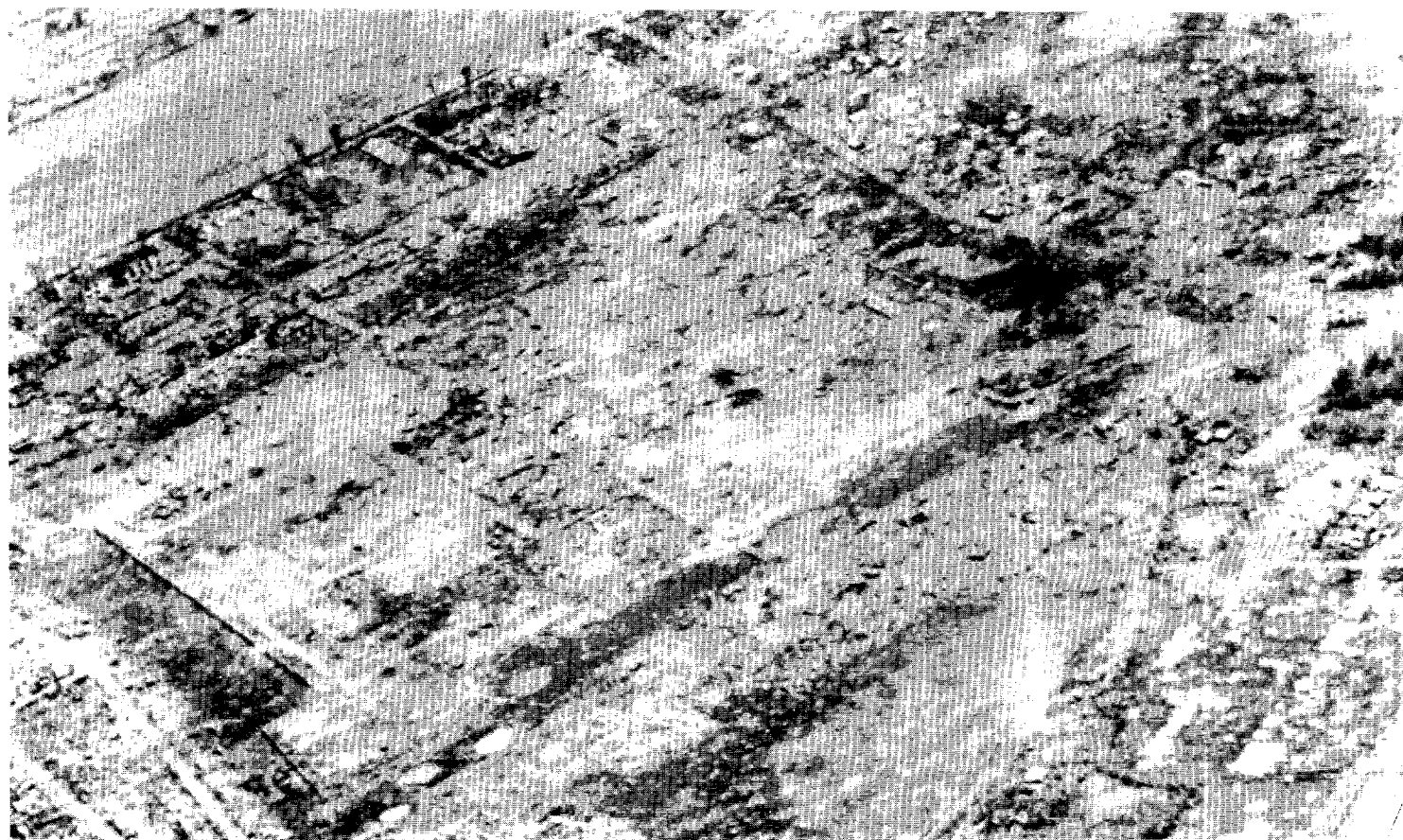
Mrs. Gandhi's government recognizes that Bhutto could endanger his political position at home if he moved too quickly to alter Pakistan's long-established position on the disputed territory. New Delhi so far has avoided specifically making the return of the prisoners—Islamabad's primary objective—contingent upon formal Pakistani acceptance of the Indian position in Kashmir. The Indians have not set forth precise conditions for returning the prisoners, but their general requirement apparently is that some additional progress must be made toward establishing a "durable peace" on the subcontinent, and this almost inevitably must include some Pakistani concessions on Kashmir.

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RETURN TO QUANG TRI



SECRET**INDOCHINA****NO LETUP UP NORTH**

South Vietnamese and Communist forces exchanged heavy artillery fire throughout the week in Quang Tri Province as friendly forces pushed deeper into Communist-held territory in and around the embattled provincial capital. South Vietnamese Marines, who took over responsibility for the city last week, have engaged Communist units throughout the week. The Airborne Division is active south of the city and west of Route 1.

Heavy fighting took place southwest of Hue during the week, with elements of the South Vietnamese 1st Division clashing with the North Vietnamese 324B Division in the vicinity of Fire Support Base Bastogne, which was reoccupied by the South Vietnamese on 2 August.

Action Light Farther South

The government's drive to retake the northern districts of Binh Dinh Province is sputtering on as enemy resistance tapers off. The district capital of Hoai An was recaptured by the South Vietnamese, but later abandoned although the Communists did not move back in.

Numerous small-scale enemy attacks have been taking place in southern Tay Ninh Province. While no large battles have developed, this activity does tie down South Vietnamese forces. Most of the Communist military action in the delta during the week took place in Dinh Tuong Province, where remote outposts and government field positions were the targets of light shelling and harassing attacks.

Pipeline System in North Vietnam

The petroleum pipeline system extending from China into North Vietnam is being expanded, but the system cannot be confirmed as operational from aerial photography, primarily because no pumping stations have been identified.

[redacted] the system will consist of three single pipelines between the Chinese border and Kep, and a combination of a dual and a single line between Kep and Hai Duong, where it will connect to the extensive pipeline network that runs south into South Vietnam and southern Laos. When completed, the new system should be more than adequate for Hanoi's petroleum import requirements.

LAOS: COMMUNISTS IN THE NORTHWEST

The Lao Communists and their North Vietnamese allies evidently continue to administer northwest Laos despite the presence of Chinese road-building and infantry forces.

[redacted] North Vietnamese advisers assist the Lao at the provincial and district levels. The Lao officials are authorized to act independently in a few matters, but most actions require the approval of the senior North Vietnamese adviser.

North Vietnamese advisers also assist Pathet Lao battalions and some companies. In addition, small North Vietnamese units sometimes operate with Pathet Lao units against Lao government troops.

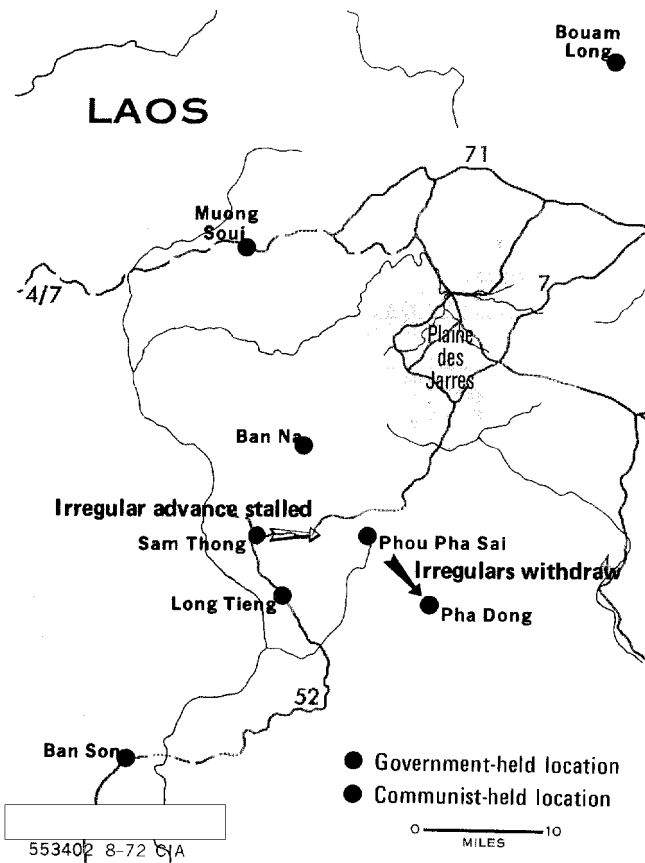
The Chinese, in contrast, do not seem to venture far from their roads. They provide no advisers to the Lao Communists in Oudomsai Province, use only their own people for road construction, levy no taxes on the villagers along the road, and do not require the locals to perform portage or other duties. Contact is limited to

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activities designed to cultivate good relations, as in some areas where Chinese aid stations provide medical attention to the Lao. On occasion, Chinese construction crews use their equipment to help local farmers clear fields.

The defectors were not able to provide any real insight into the reasons for the Chinese road-building projects. Lao Communist propaganda teams push the line that the projects are the result of agreements negotiated in the early 1960s between Vientiane and Peking. The propagandists stress that the Chinese are not a threat, that the Chinese have no intention of annexing any territory or staying permanently, and that the

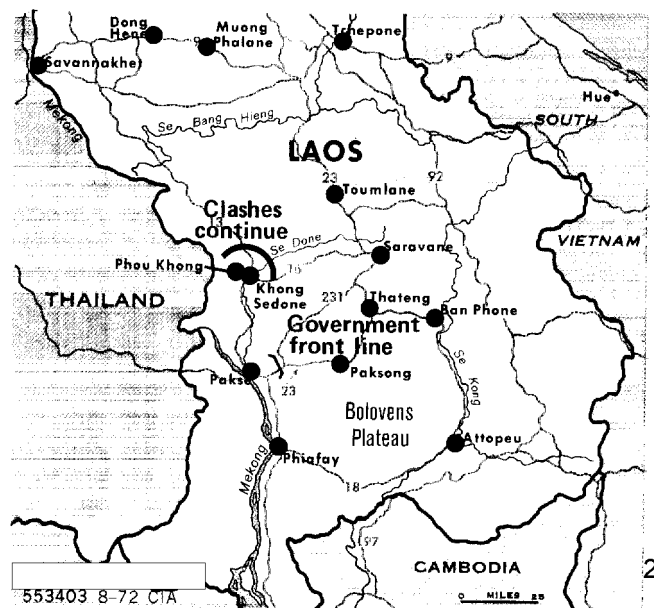
Chinese activities are designed to assist the Lao people by preparing transport routes. 25X1

Hanoi is using some of these roads to supply their forces in northwest Laos. Their trucks enter Laos from North Vietnam on Route 19 and may proceed at least as far as Muong Houn on Route 46. Most supplies are destined for North Vietnamese units in Laos, but some are portered into Sayaboury Province for use by the insurgents in Thailand. This is the clearest evidence to date that Chinese-built roads are used by the North Vietnamese to supply the Thai Communists.

Stalled Everywhere

Lao government forces, north and south, have made no progress in their efforts to recapture territory lost during the dry season.

In the south, irregular forces have managed to consolidate their hold on Khong Sedone—occupied seven weeks ago—but elements of the



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39th North Vietnamese Regiment and one or two independent battalions are still tenaciously defending the mountain just west of the town as well as villages less than ten miles to the north and east. In the Bolovens Plateau area, the situation at the junction of Routes 23 and 231 has not changed much in over a month. Government forces have not attempted to advance since late June, when elements of the 9th North Vietnamese Regiment dispersed several irregular battalions trying to push north on Route 231.

During the rainy season last year, government forces retook Paksong and attempted to establish themselves on the central portion of the Bolovens Plateau; this year the Communists have managed so far to tie down government forces in the Khong Sedone area and at the 23/231 intersection and, thus, forestall any threat to the infiltration corridor farther east.

In the north, the government's effort to recapture the hills southwest of the Plaine des Jarres has also ground to a halt. Irregular forces attempting to move from the west toward Phou Pha Sai, the strategic high ground overlooking the southern Plaine, have not advanced because bad weather has limited air support. Government units that had been on the ridge just south of Phou Pha Sai returned to Pha Dong after they were attacked by small North Vietnamese units.

CAMBODIA: PARTIES AND ELECTIONS

Sirik Matak's Republicans held the political spotlight in Cambodia during the week, raising fears in the Democratic Party that it may be surpassed as the leading opposition party. The Republicans appear to have largely overcome their early organizational problems and, with the difficult job of selecting the party's candidates for the September assembly elections behind them, are busy building up an organization in the countryside. They also seem to be gaining momentum in the cities.

There is some speculation in the capital that the opposition parties will boycott the elections to protest the election law, which it is generally agreed, favors the government's candidates. The Democrats in particular appear divided on the issue, with some party leaders reportedly openly opposing party chief In Tam's decision to participate in the elections.

Meanwhile, the regime appears to be going ahead with plans to promote the organization of two minor parties for the purpose of splitting the opposition vote. These, like the Pracheachon Party, a formerly pro-Communist party suppressed by Sihanouk a decade ago and recently revived, appear tailored to appeal to particular groups of voters who could be expected to support the opposition or not vote at all. These parties are also probably intended to avoid the appearance of one-party elections in the event the opposition does indeed boycott the elections.

The Route 1 Operation

Military activity was at a moderate level throughout most of the country during the week. Forces assigned to the joint Cambodian - South Vietnamese operation to reopen Route 1, the main highway between Phnom Penh and Saigon, were consolidating their positions around the town of Kompong Trabek, recaptured the week before. Present plans are to establish a logistical base there before pushing on to the east. Government troops from the provincial capital at Svay Rieng have reoccupied positions along the highway west of the city to await the arrival of their compatriots. The Communists have so far offered only light resistance to all this activity, but they are likely to react with greater strength should they believe their supply lines into the delta region of South Vietnam are threatened.

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PHILIPPINES: THE RAINS CAME

The worst floods in recent Philippine history have hit central Luzon, dealing a sharp blow to the national economy and carrying serious political implications for the Marcos administration. During July, tropical storms combined with the normal southwest monsoon to dump over 90 inches of rain on central Luzon, the nation's rice bowl and its most densely populated area. With the rain still falling, the full extent of the damage cannot be assessed, but already lost are thousands of homes and public buildings, a large portion of the newly planted rice crop, numerous irrigation dikes, bridges, dams, communications, and miles of roads.

The most immediate problem is the loss of stored rice supplies needed to feed farmers and consumers until the next harvest, which will now be delayed until after November. The continuing monsoon rains will hamper replanting. This must be done soon in order for the rice to reach maturity before the winter dry season. The Filipinos had expected to import some 300,000 tons of rice even before the floods and will now have to find money to import substantially more—at a time when the nation is facing a mounting balance-of-payments deficit.

The Marcos administration, already unpopular with important segments of the population, is being charged with contributing to the disaster because it failed to complete flood control projects and permitted too many trees to be cut down in the Luzon watershed area. The initial slow response by government departments to the disaster, as well as the squabbles between local and national officials, hindered relief operations in some areas and may cause further recriminations against the administration.

The President and his wife have tried to convey their concern through highly visible mercy missions to the flooded countryside. It may take more than this to mitigate the fault finding. Marcos also faces the enormous problem of

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providing relief to the hungry and the displaced and of rebuilding the countryside once the emergency situation is over. In addition to highly vocal political critics, the Communist guerrillas in central Luzon will be quick to exploit these difficulties in order to score points with the flood victims at the expense of the government.

Marcos has taken direct control of the agencies most immediately involved in disaster relief, and he will doubtless try to supervise the distribution of relief assistance in a way designed to give him the credit. If the rehabilitation effort bogs down—and past experience indicates this will probably be the case—then he will get the blame.

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CHINA: OUT OF THE DOG HOUSE

An authoritative Army Day editorial has lifted the cloud of suspicion that lingered over the armed forces since the purge of its former chief, Defense Minister Lin Piao, last fall. The editorial, issued jointly by China's three leading journals, left unresolved several pressing questions about army-party relations. No new top-level state or military appointments were announced, though all the active Peking-based members of the politburo except Mao attended the Army Day festivities.

The fact that an editorial was released on this occasion, whereas there were none on May Day or the party anniversary on 1 July, suggests that at least some progress has been made toward resolving problems connected with the Lin affair at the series of high-level meetings that were held between late May and late June. Also pointing to progress is the talk in Peking that the long-delayed National People's Congress—and possibly a new party congress as well—will be held before the end of the year.

Since the purge of Lin, a propaganda campaign calling on the army to place itself under firm party control had put the armed forces on the defensive. The Army Day editorial states flatly that the military is "loyal to the party and the people" and that it is unified. Declaring that any conspirator who wanted to undermine the army—a clear reference to Lin—would be "only daydreaming," the editorial gives the military its cleanest bill of political health in a full year.

Significantly, Lin is not mentioned by name, despite Peking's recent confirmation to foreigners of the story about his attempted coup against Mao and subsequent, abortive flight to the Soviet Union. By officially endorsing this account, which has been circulating within China since last October, Peking may in part have hoped to take some wind out of the sails of the Chinese Nationalists, who recently have been publicizing the story in a number of foreign capitals. In any event, the roundabout method of releasing official statements about Lin abroad would require a decision at the highest levels, suggesting that the regime is attempting to tie up loose ends relating to the purge and to project an image of public unity in the aftermath of the meetings early this summer.

Peking, however, still has not identified former Marshal Yeh Chien-ying as Lin's successor in the post of defense minister, despite rumors circulating in China that this would occur on Army Day, nor has Peking filled a number of other important military and civilian posts that have been vacant in the central government for a considerable period of time. Moreover, little progress has been made in civilianizing provincial party committees in which the military remains deeply entrenched. Indeed, the joint editorial carefully skirts the sensitive issue of what the army's future political role ought to be. This suggests that the difficult personnel and policy issues that have been in dispute among the leadership for some time have not yet been fully resolved.

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Democrat and shadow foreign minister, the Brandt cabinet may authorize formal negotiations, possibly beginning as early as September. Government officials previously speculated that such talks would be conducted by ambassadors in a West European capital, but the dispatch of a higher level Bonn official to Peking cannot be ruled out. A move toward China would mark the first departure from Brandt's conciliatory policy toward the USSR.

Both the government and the opposition parties agree on the desirability of a rapprochement with Peking but until now have differed on the timing of such a move. Before the Eastern treaties were ratified in May, Brandt argued that normalizing relations with Peking might antagonize Moscow and thereby jeopardize Bonn's budding relations with the USSR and Eastern Europe, to which he attaches the highest priority. The Christian Democrats, on the other hand, criticized the narrow focus of Ostpolitik, and claimed that "playing the China card" might even give Bonn extra leverage in Moscow. Brandt may now agree.

The Soviets clearly are unhappy over the prospect of improved Bonn-Peking ties. When Brandt raised the subject in his meeting with Brezhnev in the Crimea last fall, the Soviet party chief lectured the German leader for an hour on Chinese inequities. Soviet and East European commentary on the Schroeder visit have been negative, stressing the theme of Chinese collaboration with German "reactionaries." The East European media—but not the Soviet—have also questioned Brandt's motives in endorsing the Schroeder mission.

WEST GERMANY VIEWS CHINA LINK

The Brandt government, whose controversial reconciliation policy with the USSR and Eastern Europe has led it to early elections, may soon make an effort to normalize relations with Peking. Following a fact-finding mission to China last month by Gerhard Schroeder, a Christian

Although it is doubtful that Moscow will do anything to lessen Brandt's chances in the December elections, it seems that the Soviets have not yet decided to help him either.

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The Soviets probably judge Brandt's prospects to be favorable, and thus see no reason to make concessions at this time.

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SECOND ANNUAL CRIMEA SUMMIT

On 31 July, almost a year to the day after the first summit meeting in Crimea, leaders of the Soviet bloc countries gathered again at the Black Sea resort area. Party chief Brezhnev and President Podgorny headed the Soviet delegation to the conference; party leaders of all the other Warsaw Pact states, plus Mongolia, attended.

Romania's Ceausescu, absent from last year's meeting, was present this time. Romania's formal relations with the bloc have obviously improved. His presence also suggests that China was discussed only superficially. Romania normally defends China at Communist conferences, and the

communique spoke of "identity of views on all subjects discussed."

Last year's announcement mentioned the agenda. This year's did not. The presence of Foreign Minister Gromyko, who did not attend last year's gathering, at a meeting of party leaders, suggests that Europe, as well as other international affairs, was a priority topic. Gromyko recently conferred with the Polish and East German foreign ministers and visited Paris and the Benelux countries. The meeting may have considered, among other things, the question of whether progress in the inter-German and West German -



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Czechoslovak talks should be a prerequisite for establishment of relations with West Germany by other East European countries.

Brezhnev probably briefed his counterparts on the US-Soviet summit, although the Soviets have informed their allies individually about the results of the summit. The Soviets are also concerned with coordinating bloc policy toward the Conference on Security and Cooperation in Europe as the date for preparatory talks approaches.

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Czechoslovakia

TRIALS AND TRIBULATIONS

The sentencing of Milan Huebl, one-time adviser to Alexander Dubcek and former chief of the party academy, to six and one half years in prison is the latest conviction in a series of subversion trials that began on 17 July, two days after party secretary Husak left on an extended Soviet holiday. The West European press has been harshly critical of the trials.

Although isolated trials of government critics have taken place in recent years, the present series is the largest since Dubcek was overthrown in 1968; it has already resulted in more than 30 convictions on charges of subversion, dissemination of dissident leaflets, or formulation of a clandestine group "aimed at overthrowing the socialist state system." Unconfirmed reports from Prague say that the next major Dubcek official to be put on trial will be Jaroslav Sabata, former party chief in Brno.

Husak has pledged that there will be no show trials similar to those of the early 1950s and there have been none in the sense that those trials involved forcefully extracted confessions, fictitious charges, lying witnesses, and savage sentences. Husak declared at a recent congress of journalists that purges following the short-lived

reformist rule of Dubcek have been relatively mild. Husak's pledge that no one would be prosecuted for political opinions, however, has always been hedged with the proviso that if these opinions were dissident, they would not save a law-breaker from punishment.

The immediate impact of the trials on the population has been minimal, and only scanty reports of the proceedings and the sentencing have appeared in the press. Western observers—and many Czechoslovaks—see Vasil Bilak, the conservative presidium member whose functions include responsibility for security, as the moving force behind the trials.

It is noteworthy that Husak began his holiday in the USSR as the trials got under way; this leads to speculation that he wants to disassociate himself from them and thereby minimize criticism of himself and his leadership. Moreover, the trials may be timed to end upon his return to Prague, so that he may take bows for being merciful and understanding.

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MALTA-UK: TALKS WITH MINTOFF

Prime Minister Mintoff's London talks with Prime Minister Heath and other British officials on 27-28 July produced no surprises and were described as an "exercise in good will."

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The talks, which had been arranged at Mintoff's request, focused on financial relations, such as repayment of loans under the old UK-Malta accord, and on technical assistance. Mintoff discussed the effect of the recent devaluation of the

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pound on Malta's compensation under the defense agreement, but he did not demand a guarantee against devaluation. London merely agreed to study the matter.

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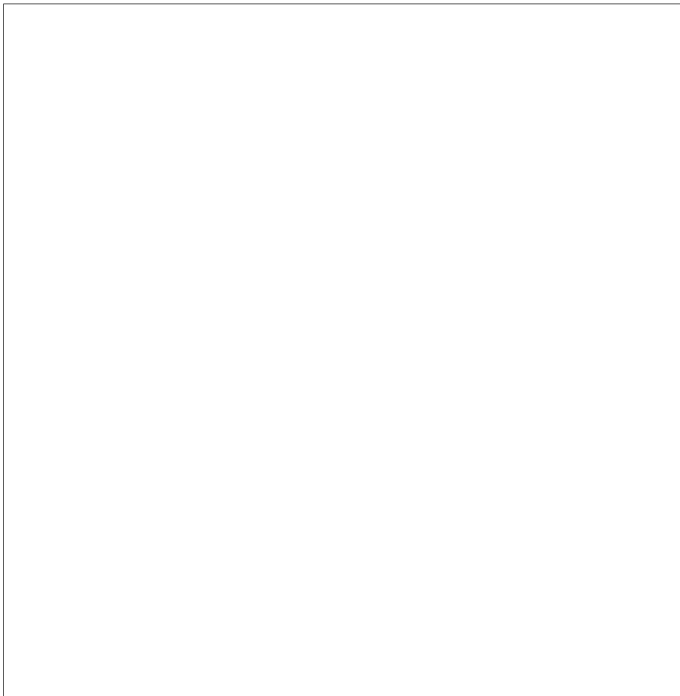


A highlight of the trip for Mintofo was his apparent reconciliation with his estranged wife, who has been living apart in Britain for almost three years. She returned to Valletta with him.

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LIBYA-EGYPT: UNION

Presidents Qadhafi and Sadat have agreed to unite their countries by 1 September 1973, but the blueprints look far short of Qadhafi's hope for immediate and complete unity. Although Qadhafi will continue to press the Egyptians as preparations for the merger go forward, Cairo (and some Libyans) can be expected to move cautiously toward the new relationship.

As conceived, the union is to be implemented in stages and directed by a unified political leadership that will recommend plans for bringing the institutions of the two countries together. Joint committees will be set up to prepare for the integration of political, economic, defense, and national security systems. After approval by the leadership of both countries, the final formula for the union will be submitted to popular vote.

Still unresolved is how the new union will relate to the Confederation of Arab Republics, made up of Egypt, Libya, and Syria, which was formed last September. The confederation has all the trappings but little of the substance of a unitary state.

Sadat does not want to rush headlong into union, and the lead time is long. Qadhafi probably granted Sadat the delay, while Sadat agreed to Qadhafi's scheme to avoid antagonizing an important aid donor. The Egyptians remember well the failure of the union of Egypt and Syria, and Sadat is in no hurry to permit more than a normal integration of the two countries' institutions.

Whatever the eventual shape of the Egyptian-Libyan union, however, Sadat will limit Libyan interference in Egyptian affairs. The militant Qadhafi would like to wield greater influence on the Middle East impasse, but Sadat will keep his own counsel on any new policy initiatives.

Qadhafi's eagerness to press his scheme for Arab unity could cause the Libyan leader serious problems at home. Libya's close relations with



Sadat and Qadhafi

Egypt were a major cause of the serious discord within Libya's collective leadership in July. Some of the 12-member Revolutionary Command Council favor a more cautious approach toward Egypt and oppose Qadhafi's generous financial assistance to Cairo. The degree of Libya's political and financial commitment to the new union, therefore, is likely to cause more dissension within the council in the coming months and could be a critical factor in its delicate balance. Moreover, much of the Libyan public—especially in the eastern province of Cyrenaica—resents the increasing number of Egyptians in the country. Union with Egypt could be difficult to sell to the Libyans should the plans for merger ever reach the referendum stage.

Qadhafi's program for rapid expansion of the Libyan military could also be placed in jeopardy. A French Government spokesman has already expressed concern about the Mirage contract with Libya, which prohibits use of the planes by third countries.

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IRAQ: ON THE EVE OF OIL TALKS

Negotiations between Baghdad and the nationalized Iraq Petroleum Company are inching closer. The co-mediators in the dispute—the secretary general of the Organization of Petroleum Exporting Countries and an official of the French partner of the Iraq Petroleum Company—reportedly are in Baghdad ready to begin talks.

Representatives of the companies are not optimistic about the likelihood of early progress in the discussions. They are hopeful, however, that mediation efforts will keep the Iraqi dispute quiet long enough for them to conclude an agreement on concessions with the Shah of Iran and an accord with Saudi Oil Minister Yamani on the issue of participation. An unfavorable Iraq settlement, they fear, would prejudice the negotiations with the Shah and Yamani. The companies have indicated a willingness to extend beyond 12 October their 90-day moratorium on legal action against purchasers of the nationalized oil if the talks in Baghdad are making progress.

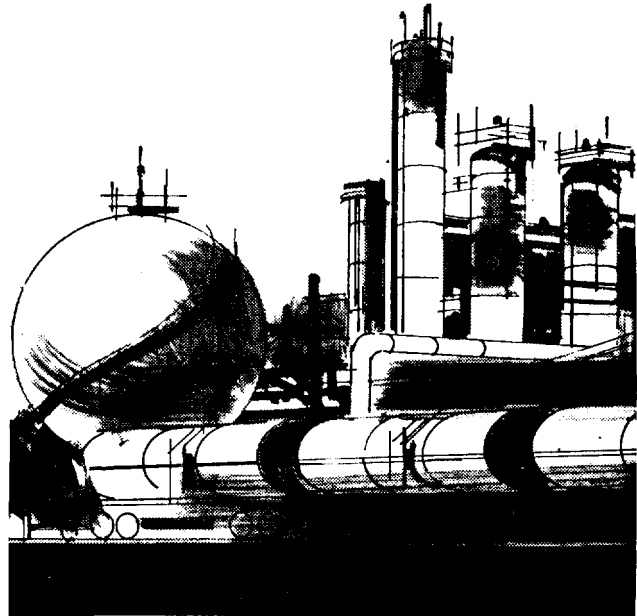
Unless Iraq can sell the nationalized oil, the country's foreign-exchange earnings will be reduced; the contested oil fields would have contributed some \$600-700 million this year. Several shipments of "hot" oil went to Bulgaria and East Germany in July, and one tanker load went to Greece. Baghdad reportedly has resumed shipping oil to the French partner of the Iraq Petroleum Company while mediation is under way. Sales so far represent only a tiny fraction of pre-nationalization production.

Although dependent on the Iraq Petroleum Company for about 40 percent of government revenues and about 55 percent of foreign-exchange earnings, Iraq is not likely to face severe financial difficulties for some time. Imports of goods and services are currently running at about \$950 million a year. Foreign-exchange earnings from sources other than the Iraq Petroleum Com-

pany are about \$550 million; \$350 million of this comes from the Basra Petroleum Company, which has not been nationalized. The gap between imports and exports probably will be met, at least in part, by contributions from other Arab states. The Organization of Arab Petroleum Exporting Countries already has pledged about \$140 million.

Iraq's foreign-exchange reserves now stand at \$680 million. The government has taken strong steps to conserve these reserves. The central bank has limited the issuance of foreign-exchange permits and other import controls have been stiffened. The government also reduced the development budget by about \$340 million. In addition, government workers are being required to place a portion of their salaries—as high as 25 percent—in government bonds. Although these measures will ensure Iraq's solvency, they will at the same time dampen economic growth and reduce the standard of living.

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SECRET**FEDAYEEN: MISSION TO MOSCOW**

Yasir Arafat's latest visit to Moscow was as unproductive as his three previous ones. *Pravda's* announcement on 27 July at the end of the fedayeen leader's ten-day sojourn was low-keyed; it contained a weak pledge that Soviet assistance to the fedayeen movement would continue. The fedayeen have long sought—but failed to get—recognition by the Soviet Government as the official representatives of the Palestinians. As before, Arafat's trip was under the auspices of the Soviet Afro-Asian Solidarity Committee, a non-governmental body.

The fedayeen chieftain did not have any public contact with high government officials. It is likely that Arafat sought, as he did in October 1971, to obtain armored personnel carriers and anti-aircraft guns. He probably was no more successful this year than last. Soviet military aid to the fedayeen has hitherto consisted primarily of light arms—such as assault rifles and machine guns—which are delivered through Arab governments. [REDACTED]

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SECRET**INDIA: THE VAGARIES OF WEATHER**

The spring in India was dry this year. The usual seasonal showers failed to come, and the monsoon was interrupted after only two weeks. Drought now threatens a major part of the country. At the same time, severe floods in north-eastern India, especially in Assam and in Orissa, have destroyed crops. As a result, hopes that 118 million tons of grain would be harvested in the year ending next June have been dashed. Rain within the next two weeks could still prevent a really serious crop failure.

Some of the less-important early crops, such as spring rice and vegetables, have already failed. The major fall crops are drying up in the fields or have not even been planted. Food prices rose sharply in June, and were 11 percent higher than a year ago.

Although the foodgrain crop for the year that ended 30 June 1972 fell short of the anticipated 110-112 million tons, the government is stressing that its eight-million-ton foodgrain reserve is adequate and available for emergency use. New Delhi, the state governments, and voluntary relief agencies already are moving to provide food to drought areas and work for unemployed farm laborers.

Bangladesh also had extensive floods in the northeast, which delayed the planting of the major rice crop. Floods are also threatening the northwest as water moves down from Assam. The US mission earlier this year estimated that Bangladesh would need two million tons of foodgrains before June 1973, assuming normal weather conditions. [REDACTED]

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PANAMA: A MATTER OF MONEY

Intensive negotiations are under way concerning the amount of compensation to be paid for the US-owned power and light company, a Boise-Cascade subsidiary that Panama has seized. The two sides are still far apart, but the government may be more flexible after legislative elections on 6 August.

The government is currently offering \$14.2 million in 30-year government bonds bearing 6-percent interest and refusing to assume the company's debts, estimated at \$44.5 to \$48.5 million. [REDACTED]

Torrijos is keeping close tabs on the negotiations. As with the canal treaty talks, his negotiators are being kept on a very tight leash, operating under rigid instructions and having to check back frequently for guidance. One of the negotiators has offered the opinion that agreement could be

reached by mid-August, well within the 60-day period decreed for the compensation talks. According to the decree, the government is authorized to expropriate the company if the purchase price and form of payment are not settled by the end of August.

[REDACTED] likely, however, both sides will exercise restraint. Once the Panamanian elections are out of the way, Torrijos' need to mine a nationalistic issue of this sort should diminish. The government may then become more circumspect in order to avoid further damage to relations with the US, particularly the canal negotiations, and to maintain an attractive investment climate in Panama. [REDACTED]

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SECRET**ARGENTINA: LANUSSE BLASTS PERON**

President Lanusse dropped his efforts toward political conciliation last week and viciously attacked Juan Peron in a speech to a large gathering of top military officers. Lanusse's highly touted Grand National Accord, which was to have brought the Peronists back into national political life, is now being abandoned and power politics is coming to the fore. Both Peronists and anti-Peronists are seeking to exploit the divisions that have plagued Argentina for decades.

Lanusse's original plan was to outmaneuver Peron and prove to his followers that Peron was unwilling to return to Argentina. Failing that, the President hoped to negotiate an agreement with Peron that would take the old dictator out of the presidential race and clear the way for his followers to back a candidate acceptable to the military. Peron refused to commit himself, however, and as time wore on Lanusse and his whole plan were placed in increasing jeopardy.

It was the Peronists' refusal even to discuss ground rules for the elections that finally forced Lanusse to change tactics. When the old dictator could be neither cajoled nor outmaneuvered, General Lanusse's military background dictated a frontal assault. With the nation listening in, he launched a scathing personal attack on Peron, charging him with cowardice and claiming he had never been concerned with the welfare of Argentina. The President challenged Peron to prove him wrong by coming back at Lanusse's own expense. Lanusse ridiculed Peron for keeping the remains of Eva Peron in his Madrid home where he now lives with his third wife, Isabel. Lanusse explained that Peron persisted in this unwholesome exploitation of the dead out of fear that if he moved her, Peronist pilgrims to Madrid would bypass him altogether and go directly to Eva's site.

President Lanusse's "revelations" about Peron are unlikely to convince Peronists who do not already believe much of what the President said. From Madrid, Peron has already answered

with a list of impossible demands that must be met before he will return. Top Peronist leaders have charged Lanusse with trying to generate chaos that could risk civil war.

This move away from conciliation and toward polarization indicates that if the elections take place as scheduled next March, orthodox Peronists are likely to be deprived of a share of power again as they have been in the past. Lanusse's harsh warning of this prospect may, however, improve the chances of neo-Peronist groups such as Tecera del Franco's Union Popular, which advocates Peronism without Peron and seems willing to work with the government.

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PERU: THE PRESIDENT SPEAKS

President Velasco's independence day speech on 28 July and another to armed forces leaders on 30 July broke little new ground. In the speeches, Velasco summarized past achievements of the revolution, emphasized the need for increased popular participation, and left Peruvian-US relations pretty much as he found them.

The only new proposal he made was for the creation of a "social property sector," which is to participate in the economy along with private and state enterprises. This concept was not spelled out precisely/

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The implementing regulations are still in the drafting stage, and changes may still be made before they finally take effect.

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The closest Velasco came to criticizing the US was when he spoke of the need for non-intervention and self-determination with respect to international relations. In addition, he cited the renewal of diplomatic relations with Cuba as one of the main achievements of his government during the past year. He did not, however, censure US actions in holding up loans from multilateral organizations or accuse the "imperialists" of interfering in Peru.

President Velasco emphasized the importance of popular participation in the revolution. He accepted the inevitability of opposition, but insisted that violence would be crushed. This may have been an oblique reference to the recent activities of small guerrilla and bandit groups that have been operating in northern and eastern Peru. President Velasco also told students that they had an important part to play in the revolution. Student disturbances in June and July worried the government and almost led to the ouster of the interior minister.



of the same period in 1971. The entire surplus was with the US. Increased imports from non-US markets, sparked by a 61-percent rise in purchases from Japan, caused the trade balance with these other partners to shift to a small deficit from the surplus of \$650 million registered in the first half of 1971.

Canada's trade should continue to grow rapidly during the rest of the year. Sales will be influenced by economic improvement in the US, Western Europe, and Japan; imports will be boosted by Canada's growth, projected by the Organization for European Cooperation and Development at six percent for the year. Reflecting higher Canadian purchases, the over-all trade surplus for the full year probably will total only \$1 billion, about half that of last year. Virtually all of this will again be accounted for by the US.

CANADA: TRADE EXPANSION

Canadian exports surged upward in the first half of 1972 to reach \$9.7 billion, 11 percent above the comparable period in 1971. A 17-percent increase in sales to the US, resulting mainly from accelerated US economic growth, accounted for almost all of the increase. The export gain has bolstered Canada's 18-month-old economic recovery and has helped to stem the rise in unemployment, which has averaged more than six percent during the past two years.

Imports, however, increased some 60 percent more than exports, reflecting strengthened consumer demand and rapid inventory accumulation. As a result, Ottawa's half-year trade surplus—just under \$500 million—was only half that

In a related development, Canadian Trade Minister Pepin and US Treasury Secretary Shultz recently held exploratory talks; bilateral trade discussions have been suspended since early February 1972. Continuing points of friction include modification of the important North America automotive agreement, which regulates trade in automobiles and automotive products; duty-free allowances for tourists; defense production sharing; and the US program of tax deferments on corporation export earnings.

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